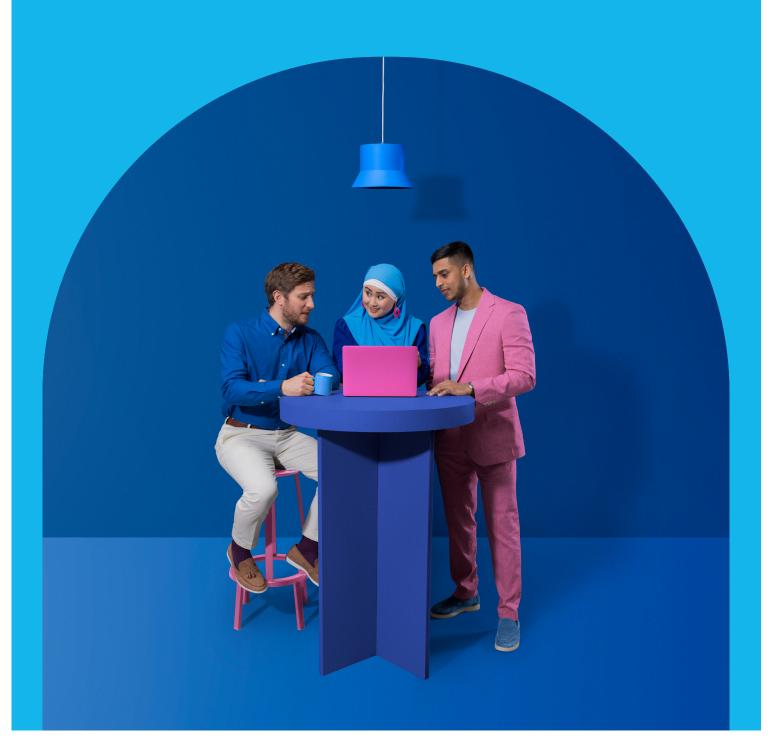# xero

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MASTER THE MOVE TO
MAKING TAX DIGITAL

How one practice is making sure the transition to MTD for Income Tax is stress-free for both their staff and clients

As compliance officer for Manchester-based practice Pennine Accounting Limited, Lorna Small admits she likes to be prepared. "I don't like doing things at the last minute. I like a plan," she says.

So when HMRC announced that Making Tax Digital for Income Tax (MTD for IT) was — after several delays — finally going ahead, she knew it was important for the practice to get ready well ahead of time.

The first phase of MTD for IT is just a few months away. From April 2026, sole traders and landlords with qualifying income over £50,000 are required to keep digital records and file quarterly updates using MTD compatible software. In April 2027, it will become mandatory for sole traders and landlords earning over £30,000, and those with income above £20,000 will follow in April 2028.

It's not only a big change for clients, but for accountants and bookkeepers too, involving new workflows and more frequent deadlines. Pennine Accounting signed up for Xero's MTD for IT beta programme in June. "We thought it was important as a firm to join the beta testing phase so that we understood what was required of us as a firm and our clients before it became mandatory," says Lorna. "It's a learning curve for us as well."

Lorna Small, Accountant, Pennine Accounting Limited

"If accountants don't start getting clients signed up now, how are they going to understand the process and the software when it becomes mandatory?"

Getting clients ready for MTD for IT

The firm — which has around 90 self assessment clients — approached a handful over the £50,000 threshold, targeting ones already registered for MTD for VAT first.

"We told them it's not mandatory yet, but it will be in April and we want to work with you to make sure you're ready. We said, 'Come on board with us and we'll learn together.'"

The practice is running the beta trial with selected clients while it refines its MTD for IT processes. "We're using it to assess how much extra work it will be and what the pricing should be," says Lorna. By addressing any teething problems well in advance, with plenty of support from Xero, she feels confident the mandatory transition to MTD for IT will be smoother and more stress-free.

"I can't fault Xero at all. They've been really supportive in getting everything up and running. Any queries I have I can go on a call with my accountant manager or to a support team," says Lorna. "We're working with HMRC and Xero to make sure that come April, we're doing the best we can and avoid any penalties or fines for our clients."

Pennine Accounting now plans to move more clients over the £50,000 threshold onto the beta. "Once they're on and that's running smoothly come April, then we'll drop down a bracket." Proactive communication with clients about the upcoming changes is vital. "I check in with self assessment clients at least once a quarter and I'm going to ramp that up as we head into MTD for IT."

Clients need to be individually registered for MTD for IT through an accountant's agent services account, with the process taking several minutes.

"If you've got a spare half hour, especially before tax season, just start getting some clients signed up, try and get a client on board who normally comes in with paperwork at the end of the year. Get them used to regular submissions."

- Lorna Riley, Pennine Accounting.

The benefits of digital record keeping

Many clients are nervous or even suspicious about MTD for IT. To get them fully on board accountants and bookkeepers don't just need to remind them that the changes are mandatory, but also explain the benefits. "I do think a lot of people need educating on it, because they just think HMRC are out to get them," says Lorna.

> "We invite clients in for meetings, show them Xero, show them bank feeds and explain the positives."

One of those positives is better visibility over finances, with no nasty surprises come tax return time. "Every quarter, clients will know a figure, and when it comes to the fourth quarter and the final return, they can have the majority of that saved up." The outcome for clients is greater control over their business finances, with the information at their fingertips to make smarter decisions.

With a natural fear of the unknown, digital record keeping can be daunting for clients, so Lorna shows them how simple it can be. "I really enjoy a challenge so the people still coming in with shoe boxes and bags for life, it's my aim to get them onto software." Pennine tells clients it's now a cloud-based firm, introduces them to Xero packages and gives them training on digital record keeping.

"Clients will say, I'm not very digital, I just keep a spreadsheet. I say, but you're doing that spreadsheet on a computer. You've got a mobile phone and you take pictures of your children, grandchildren and holidays. There's no difference between that and taking a picture of a piece of paper on your desk. It'll save you time because you're not sitting there for two hours at the end of the month typing everything up and it takes away the stress of losing a receipt."

The reaction has been a surprise — and relief — at how straightforward the process is in Xero.

**"Clients don't realise <u>how easy it will be,</u> there was one in particular who, within half a day, knew how to use Hubdoc and do bank feeds. She said, why have you never shown me this before? We tried to!"**

- Lorna Riley, Pennine Accounting.

Connected compliance for smarter workflows

Before adopting Xero in the practice, Pennine used Sage desktop software. Sensing that cloud-accounting was the future, they looked into providers in late 2019, with Covid and remote working accelerating the digitalisation process. Xero appealed for its simplicity.

"A big factor in choosing Xero was the user interface and the support available compared to other providers"

- Lorna Riley, Pennine Accounting.

The practice has gradually added in more cloud-accounting tools in the lead up to Making Tax Digital. "It's pushed us to go digital faster." That includes using Xero Practice Manager to track jobs and manage workflows and Xero Tax for compliance work. "We're trying to streamline our work as much as possible."

By using Xero end-to-end in workflows, from data capture to submitting returns to HMRC, Pennine Accounting has boosted efficiency — and reduced errors. "Before Xero Tax we used BTC software, uploading from Xero to there and then putting journals back into Xero. There's none of that anymore. Xero Tax is very user friendly. It prompts you what you do next."

It also makes collaboration with clients and staff easier. "You can see where each job is up to at any time, from anywhere," says Lorna. "If something looks wrong you can assign it back to the relevant person and leave a note, instead of sending an email that might get lost in an inbox. It speeds everything up so we're not seeing a bottleneck."

With Xero Tax data flows straight through from bookkeeping records, meaning you can start submitting returns as soon as the tax year is over — rather than spending months chasing clients for information.

"We've got quite a few tax returns already completed. My aim is that nobody has to work past 3pm on Fridays in January."

Your clients' go-to expert on MTD for IT

More sole traders and landlords are likely to be looking for support with MTD for IT, so practices have an opportunity for growth. "We're planning on holding local drop-in clinics where we can demonstrate Xero," says Lorna.

For existing clients, MTD presents the chance for accountants and bookkeepers to deepen connections with clients. "It can open the door for different services, especially for the shoebox clients who you only speak to at the end of the year. You're building relationships that mean a bit more. And if you're not prepared to do it, there'll be another accountant who is."

For Lorna, that message is key. Sole traders and landlords need support with MTD for IT — and they'll look for advisors who are confident and ready-to-go with it. "Have those discussions with your clients before HMRC does," she says. "We know of some accountancy firms that have had absolutely no discussion about MTD for IT, that are not ready for it." Her advice? Don't hold off until January to start thinking about MTD for IT. "That's leaving it too late to have the conversation with your clients, get them signed up and ready – especially if they're not used to using digital software. MTD for IT is coming and there's no backing away from it, so prepare as much as you can."

Access the tools and resources you need to prepare your practice, support your clients, and stay ahead of MTD for IT. Learn more with our **MTD Toolkit**.

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